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ABSTRACT

This report describes the history, features, and basis of bulk funding in New Zealand's early childhood services. The report likens bulk funding to a "quasi voucher" system and reviews research studies and evidence of the impact of bulk funding on kindergartens and childcare centers. The review shows that limited funding has pressured kindergarten associations to make choices to increase group sizes, maximize roll numbers, and in some instances charge fees and disband professional advisory positions. Teachers' pay has continued to be low and conditions have been eroded. Similar effects are evident in the childcare sector. In addition, some business owners of childcare centers have used government funding for purchase and development of their own property and their own capital gain. Based on the review, the report concludes that the system of bulk funding works against the government's twin policy objectives of enhancing quality and improving participation for all preschool children. It shows that disparities in participation that were evident in 1989 still exist in 2001. The report affirms the importance of resources for staffing and curriculum implementation and an infrastructure of support. (Contains 43 references.) (Author/KB)

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Bulk Funding

of New Zealand's Early Childhood Services –

An Analysis of the Impact

Linda Mitchell

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BULK FUNDING OF NEW ZEALAND'S EARLY CHILDHOOD SERVICES — AN ANALYSIS OF THE IMPACT

Linda Mitchell

New Zealand Council for Educational Research

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CONTENTS

	Page
Acknowledgements	iii
Abstract	iv
Bulking Funding of New Zealand's Early Childhood Services — An Analysis of the Impact	1
History, Features and Basis of Bulk Funding	1
Background	1
Features of the bulk funding system	2
Rationale for bulk funding	3
Bulk funding as a 'voucher' system	3
The Impact of Bulk Funding on Kindergartens	5
National surveys by Wylie (1992, 1993) New Zealand Council for Educational Research	6
National surveys by Wilson and Houghton (1993, 1995, 1996), University of Otago	7
Surveys of group size and ratios by Dougherty (1993), Sims (1994), Renwick and McCauley (1995)	8
Other changes - senior teacher positions, fee-charging, employment contracts	10
The Impact of Bulk Funding on Childcare Centres	11
Discussion	15
References	19

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ABSTRACT

This paper describes the history, features and basis of bulk funding in New Zealand's early childhood services. It likens bulk funding to a 'quasi voucher' system and reviews research studies and evidence of the impact of bulk funding on kindergartens and childcare centres.

The review shows that limited funding has pressured kindergarten associations to make choices to increase group sizes, maximise roll numbers and in some instances charge fees and disband professional advisory positions. Teachers' pay has continued to be low and conditions have been eroded. Similar effects are evident in the childcare sector. In addition, some business owners of childcare centres have used government funding for purchase and development of their own property and their own capital gain.

Based on the review, the paper concludes that the system of bulk funding works against the government's twin policy objectives of enhancing quality and improving participation for all preschool children. It shows that disparities in participation that were evident in 1989 still exist in 2001. The paper affirms the importance of resources for staffing and curriculum implementation and an infrastructure of support.

BULK FUNDING OF NEW ZEALAND'S EARLY CHILDHOOD SERVICES — AN ANALYSIS OF THE IMPACT

Bulk funding in the education sector is a term indicating untagged government funding being given to services to provide education. Bulk funding goes hand in hand with self-management. Management is free to spend the bulk grant as it sees fit, within legislative and regulatory requirements.

Supporters of bulk funding say that it provides flexibility and freedom to manage. This flexibility and autonomy, they say, allows innovation to flourish and stimulates responsiveness to local needs. Opponents argue that it does not encourage quality education, since there is no requirement to spend on aspects of service provision, such as staffing, that are associated with quality of children's learning experiences and interactions. They argue that it widens inequality, especially if the funding formula is insensitive to characteristics of the students or community. They say it allows the government to remove itself from direct responsibility for education, makes it easier for the government to reduce funding and provides no evidence that it supports innovation and responsiveness.

Some have likened bulk funding to quasi-vouchers (Wylie, 1998).

There are a small number of research studies on the impact of bulk funding in early childhood services.[1] These are in the kindergarten sector where the impact is clear, since kindergartens switched from direct funding of teachers' salaries to bulk funding in 1992. The kindergarten studies are reviewed and evidence is provided of how childcare centres have fared under the bulk funding regime.

History, Features and Basis of Bulk Funding

Background

Bulk funding of early childhood education services was proposed in the 'Meade report', *Education to be More* (Early Childhood Care and Education Working Party, 1988). This report argued that there were serious inequities in the existing system of early childhood education services, and that these could be redressed only through a basic change to funding and systems. Amongst the issues were:

- Variation in quality of services, low and disparate pay rates, and not enough trained and qualified staff
- Services not available at affordable prices
- The need to recognise the importance of Maori determination and control over services for their own children

[1] There are various types of early childhood education service, all of which are bulk funded. Licensed services are: nga kohanga reo, childcare centres (also called education and care centres), free kindergartens, playcentres, and family day care services organised under a co-ordinated scheme.

- Low status of women
- An uneven and inequitable funding structure and low levels of funding
- Ineffective overall planning and co-ordination or frameworks for policy development.

The Meade report's solution was funding through a bulk grant, continuation of a fees subsidy, a property loans scheme and a discretionary grants scheme. This was to replace all other funding arrangements, which varied from service to service. This arrangement was confirmed later that year in the government's policy report *Before Five* (Lange, 1988). An exception was that the salaries of kindergarten teachers and those of early childhood teachers on the Department of Education's central payroll system would be paid centrally for the first two years of the new system.

The Meade report did not recommend levels of funding, but noted that the funding formula would need to 'take into account' staffing, in-service training, running, accommodation and property costs. Weightings for special needs, remoteness and catering for children aged under two were advocated. The working group set up to implement the policy included, as one of its key principles:

> The need to ensure any new system of funding promotes greater equity for women, Maori, Pacific Island, and other groups with minority status, as well as working class, rural and disabled students, teachers and communities, and that the needs of these groups are integrated into all aspects of the changes and not treated as an optional extra (*Before Five*: Bulk Grants, Discretionary Grants and Loans Working Group, 1989, Clause 1.6.1).

This working group also recommended that additional factors be included in the formula, namely, more refined age categories, small size, remote location, parent and staff involvement in management, extraordinary property costs and special educational needs.

However, recommendations for special weightings were not adopted, except for broad weightings for the factors of age and service type. The current bulk funding formula comprises four funding rates, based on an amount per child per hour, differentiated on the basis of whether the child is over two years or under two years:

- Rate 1: the base funding rate for all chartered centres.
- Rate 2: for chartered services that meet standards higher than licence requirements for staff:child ratios and staff qualifications.
- Rate 3: for kindergartens.
- Rate 4: for licence-exempt centres.

There is a time limit of 30 hours per week for funding children's attendance.

Features of the bulk funding system

New Zealand's early childhood education bulk funding system has the following features:

- Bulk funding is based on per capita amounts for students, rather than the cost of providing different types of service (for example, staffing, advisory services, parent support, operation costs).
- For-profit commercial centres are bulk funded at the same rates as non-profit[2] community-based centres.
- There are no restrictions on centres setting up and receiving bulk funding, provided that they meet licence and charter requirements.
- Services are responsible for managing and allocating bulk funding.
- Full audited financial statements are required from community-based providers. Private providers are required to show the contribution that government money has made to their operation and report on whether the service for which the government has paid has been performed. They are not required to report on commercial or private sources of income (Ministry of Education, 1992).
- Bulk funding goes directly to early childhood services.

Rationale for bulk funding

Underlying the establishment of New Zealand's bulk funding systems was an assumption that it would provide a solution to uneven access and variable quality. National guidelines and regulations would ensure maintenance of quality and safeguard children's rights. Another assumption was that the 'market' would respond to the needs of users (or potential users) of early childhood services:

> Our new funding structure is intended to be more responsive, flexible and equitable to users of early childhood services and to make sure there is increased access to funding for services. Under the new system any group which has a charter approved by the Minister has access to government funding on the same basis as any other service. (*Education to be More*, p. 73, clause 13.2.2)

Bulk funding as a 'voucher' system

New Zealand's bulk funding system provided a model for England's Nursery Education Voucher Scheme. In 1995, Michael Hipkins, of the UK's Department of Education and Employment, was sent to New Zealand to study the funding arrangements when England was establishing its scheme. Hipkins later called bulk funding a 'voucherless vouchers' system

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[2] Non-profit making was defined in *Before Five*: Bulk Funding, Discretionary Grants and Loans (1989) as follows: '...in essence, this term refers not to the ability or otherwise of an organisation to make a profit in accounting terms, but rather to the ownership of its assets which is a legal question. To qualify as "non profit making" an association must have clauses within a documentation of incorporation which:

a) prohibit the distribution of income to members or trustees over and above wages/salaries or fees, and which
b) at the point of dissolution, prevent distribution of assets to markets (usually achieved by making a positive statement as to how the assets will be disposed of e.g. to another group with a similar function, to an umbrella group etc.)' (Report of the Before Five: Bulk Grants, Discretionary Grants and Loans Working Group, 1989, Clause 1.6.1.).

(Mitchell, 1998). In other words, the components of 'vouchers' are present without an actual voucher being given to parents to 'spend' on education, as happened in England in 1997.

The core ingredients of vouchers have been described by Cathy Wylie (1998) in relation to schools. These are:

- Funding formulae which set certain amounts per student and give funds to individual schools on the basis of their roll to cover all student needs at the school
- Individual school responsibility for managing and allocating its government funding
- School enrolment based on family choice, rather than on family location or on right of entry to the neighbourhood school. (Wylie, 1998, pp. 8–9)

Wylie (1998) identified the theory behind vouchers and described the central premise as being a view of education as a market commodity. In this view, markets are thought to be the best way to meet the needs of 'consumers' of education (parents and students) and competition will ensure efficiency, responsiveness, innovation and cost effectiveness.

In a critical analysis of the theory, Wylie pinpointed major themes. One is whether education should be treated as a market commodity with benefits largely seen as accruing to individual consumers. Researchers and commentators on early childhood education have been highly critical of the market approach to early childhood education during the 1990s, with its assumption that markets are the best way to raise quality and meet the needs of families (e.g., Meade, 1993; Mitchell, 2000; Mitchell and Noonan, 1994; Smith, 1993).

Wylie highlighted the complexity of education, which, she argued, is not a mechanical process, but a process of 'co-production'. Students do not simply receive education. Students themselves are actors who have agency within education settings. Transposing this argument to early childhood settings, Dahlberg, Moss and Pence (1999) state:

> The young child emerges as co-constructor, from the very start of life, of knowledge, of culture, of his or her own identity. Rather than an object that can be reduced to separate and measurable categories (for example, social development, cognitive development, motor development and so on), through isolating from one another processes which are very complex and interrelated, the young child is understood as a unique, complex and individual subject. This construction produces a child who, in Malaguzzi's words, is 'rich in potential, strong, powerful, competent'. (p.50)

Wylie also pointed out that home resources, expectations and experiences have an impact on experiences of school and learning and on achievement. This is also true of preschool children. The findings of the longitudinal Competent Children study (Wylie, Thompson, and Kerslake Hendricks, 1996) have shown that family resources and activities at home to be related to those children's competencies at near age five. A competitive model, in which resourcing is the same for all services regardless of the intake, makes it hard for centres

serving low income communities to reach equitable outcomes. The disparities that already exist are likely to be consolidated rather than narrowed under such a regime[3].

The Impact of Bulk Funding on Kindergartens

Research on the experience of kindergartens[4] provides useful evidence of the impact of bulk funding. Prior to 1992, government funding of kindergartens was tagged to particular costs and allocated to be spent on those costs. The funding consisted of:

- An administration grant per kindergarten
- An operating grant (amount per session)
- A special group grant (amount per special group)
- A building maintenance grant, based on square metres
- Special needs funding to the New Zealand Free Kindergarten Union (NZFKU, the umbrella employer organisation)
- An administration grant to the NZFKU
- Funding to cover teachers' salaries, paid directly to teachers by the government's central payroll system
- Funding to cover professional support for teachers.

This system of funding ensured government responsibility for paying teachers' salaries and for providing grants for meeting other costs. There was strong resistance from the early childhood teachers' union (Combined Early Childhood Union of Aotearoa, 1992) to moving to bulk funding. The union believed that under bulk funding, the government would be able to stop meeting the full costs of teachers' salaries and other items, with consequent pressures on parents, staff and volunteers, and on quality.

Kindergarten associations themselves were initially opposed to moving to bulk funding, but at a special meeting on 4 December 1991, they agreed to work with the Ministry of Education to implement bulk funding of teachers' salaries in 1992 (Bell, 1991). Secondhand information of the time reveals that four large associations, Wellington, Central North Island, Auckland and Waikato, swayed the meeting after they had been offered funding incentives by Ministry of Education officials if they would accept bulk funding. However, this extra funding did not eventuate. In March 1992, when bulk funding was introduced, it was based on 1991 expenditure. A Ministry of Education senior manager, Lyall Perris, argued that interest earned would compensate for any kindergarten receiving less money in 1992.[5] Bulk

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[3] Based on a review of the empirical research literature, Wylie (1998) concludes that vouchers do not deliver quality or increase access or innovation in the schools sector.

[4] Kindergartens in this context are defined as a free kindergarten controlled by a free kindergarten association founded for the purpose of establishing and maintaining a kindergarten or kindergartens (Education Act, 1989, section 315, 1).

[5] *Dominion Sunday Times*, Interest will make up funding shortfall. 8 March 1992, p.14.

funding was introduced in an atmosphere of tension between the teachers' union, teachers, associations and government (Bell, 1991b).

Several New Zealand research studies have been undertaken since bulk funding was introduced. These considered some of the effects of bulk funding on the kindergarten service. Newspaper reports, educational writers and the kindergarten teachers' union publications provide further evidence. These studies and evidence are examined in the light of the policy objectives that suggested bulk funding would enhance quality and improve participation and equity goals.

Two groups of research studies, by Wylie from the New Zealand Council for Educational Research, and by Wilson and Houghton from the University of Otago Consulting Group, surveyed kindergartens at different times to examine the impact of bulk funding.

National surveys by Wylie (1992, 1993) New Zealand Council for Educational Research

Wylie's first national survey was carried out in May-June 1992. It was set up to provide base-line data to monitor the effects of the change in the way kindergartens were funded. Although bulk funding had already been introduced (from 1 March 1992), Wylie argued that many aspects of individual kindergarten provision were unlikely to have changed before the survey took place. A second national survey (Wylie, 1993) was carried out in May 1993. This incorporated material from a NZ Free Kindergarten Associations (1993) survey.

Wylie (1992) surveyed all 41 kindergarten association secretaries, all 42 senior kindergarten teachers, and a random sample of 25 percent of head teachers and chairpersons of kindergarten committees She described kindergartens as 'a flagship of government support for New Zealand early childhood education' (p.2). Notable features prior to bulk funding were the government contribution of 80 percent of building costs, free sites (until 1990), actual teacher salaries, a national career structure, a national system of professional support, and some support for the national body of employing associations. Access to kindergartens was nominally free, with parents asked for a donation. (Kindergartens were prevented through regulation from charging fees until December 1990, when the government revoked the applicable regulation through Finance Bill No 2 1990. In 1992, however, no kindergartens were fee-charging).

Wylie's survey showed that kindergartens served families from all socio-economic groups. According to head teachers, 1 percent served high income families, 29 percent served a wide range of families, 16 percent served mainly middle-class families, 35 percent served low-middle income families, and 23 percent served mainly low income families. Committee chairpersons gave similar views. A similar spread was found in a national survey of 75 percent of all kindergartens carried out by the Combined Early Childhood Union in April 1991 (Combined Early Childhood Union of Aotearoa, 1991). No penalties appeared to be attached to non-payment of donations.

While the change to bulk funding had only just occurred, Wylie reported that some changes were beginning to happen at association and kindergarten level. These included improving banking arrangements, increasing rolls or keeping them at a maximum, cutting

back on capital and maintenance costs, and increases in association staff, kindergarten teacher and volunteer workload.

Wylie's (1993) second national survey, 15 months after bulk funding was introduced, showed definite changes in kindergarten provision. These included:

- cutbacks to professional support from senior teachers
- a switch in focus for associations to management and administration
- pressure to match roll numbers with the funding formulae
- increased group sizes
- an increasing gap between resources in kindergarten servicing low-income areas and others
- a growing emphasis on kindergartens as separate units that should be economically viable on their own.

Wylie predicted the changes that bulk funding had made after 15 months would have a major impact on the quality of kindergarten experiences, namely reduction in quality through increased group size, closure of financially unviable kindergartens, and an increasing gap between what could be provided in low-income areas and in other areas.

National surveys by Wilson and Houghton (1993, 1995, 1996), University of Otago

Three studies, by Houghton and Wilson (1993), Wilson and Houghton (1995), and Wilson, Houghton and Piper (1996), surveyed kindergarten associations to collect baseline 1992 financial information, further financial information for the 1993 and 1994 financial years, and association budgets for the 1995 financial year. Financial management practices were also examined in 1995.

The baseline survey (Houghton and Wilson, 1993) collected association and kindergarten accounts and surveyed associations for perceptions of changes. Main findings were of an increase in associations' autonomy to manage and plan and to invest income. Workloads of teaching and administrative staff and volunteers had increased. Relationships between associations and teachers had deteriorated.

The second survey (Wilson and Houghton, 1995) described positive effects as improved management autonomy and flexibility to set budget priorities and target expenditure to areas of perceived needs (for example, teacher development and property maintenance). However, associations cautioned that sufficient funds were required to implement their plans.

Negative affects were described as:

- Increased group sizes, particularly increases from 40 to 45 children
- Increased staff stress, due to increased workloads, pressure to maintain full rolls and increased group sizes
- Insufficient funding to effectively manage the association
- Increased responsibility on volunteer management

- Lack of allowance in the bulk funding formula for equity differences between associations.

The third survey, which took place in 1995 (Wilson, Houghton and Piper, 1996), covered head teachers and parent committees as well as associations. It showed that negative effects were continuing and pressures on income were provoking further operational changes. The budgets of kindergarten associations increased by about 1,000 percent after bulk funding was introduced in 1992. (This was because teachers' salaries, which had previously been paid directly by the government, make up about 90 percent of expenditure in kindergartens.) In 1994, 21 percent of associations had (mainly small) operating deficits. Individual kindergartens had increased their levels of income and expenditure, but the increase had come mainly from parent contributions.

There were large differences in the extent to which individual kindergartens generated income from parent donations and fundraising. This finding is consistent with those of Wylie (1993) and Combined Early Childhood Union of Aotearoa (1991). The data indicated that the level of government funding had remained relatively stable in dollar terms between 1993 and 1994, but had declined as a percentage of total income as local funds rose.

Within kindergartens, groups had largely been restructured to consist of 30 or 45 children with two or three teachers, making a significant increase in the proportion of kindergartens with teacher:child ratios of 1:15. Group sizes of 45 were perceived by teachers and committee representatives to increase stress.

In order to increase funding, a substantial number of kindergartens planned to increase or had increased the number of weeks for which they were open. Fees were not being charged in 1994, but one association asked for a higher level of contribution for parents who did not want to fundraise.

There was a reported decrease in voluntary help in 48 percent of associations, and no change in 40 percent. The decrease was attributed to increased responsibilities which discouraged involvement.

Surveys of group size and ratios by Dougherty (1993), Sims (1994), Renwick and McCauley (1995)

The impact of bulk funding on group size and ratios was explored in more depth in a series of studies by Dougherty (1993), Sims (1994), and Renwick and McCauley, 1995). It is worth considering these studies in relation to what would have occurred instead had the Pupil Session Unit kindergarten staffing scheme been fully implemented. The scheme would have delivered a teacher:child ratio of 1: 13.33 and a maximum group size of 40 children by 1994. However, the scheme was halted in the 19 December 1990 Economic and Social Initiative Statement.

Dougherty (1993) interviewed 14 teachers and eight parents from five kindergartens in Palmerston North to gauge their perceptions of the effect of bulk funding on the quality of education and care. Most teachers noted a loss of some working conditions (loss of in-service

day, decrease in opportunities for professional development), an increase in stress levels, and an increase in workload.

All the kindergartens had standard ratios of 1:15 and there was pressure to keep rolls full at all times. For two kindergartens, the 1:15 ratios represented a decrease in ratios; for three, it was an increase. Improvements in physical environments were made and greater opportunities for teacher:child interactions with teachers were enhanced in the two kindergartens that improved their ratios.

Where space permitted, group size had increased from 40 to 45. This was associated with a perceived increase in noise levels. Some of the negative effects of large groups were also noted by Sims (1994). She found that it was standard for many kindergartens to increase their rolls from 40 to 45 per session (with three teachers). The other standard pattern was sessions with 30 children and two teachers. These standard patterns allowed kindergartens to maximise their rolls.

Sims surveyed teachers from nine kindergartens in Palmerston North, nine in Wanganui, and eight in Napier. Many had experienced increased rolls, and described the following negative effects arising from this:

- Increased noise levels
- Insufficient space
- Less time for individual attention or for small group activities
- Extra workload
- Difficulty in implementing Te Whāriki (the early childhood education curriculum).

A detailed study of issues arising from changes to group size was done by Renwick and McCauley (1995). They examined kindergarten teachers' perceptions of the impact of changes in group size policy in 54 kindergartens in Wellington. Again, a standard pattern of sizes was found:

- 30/30 kindergartens with two teachers
- 44/44 or 45/45 kindergartens with 3 teachers
- 44/30 or 45/30 kindergartens with 2.5 teachers.

Teachers in 30/30 kindergartens (that is, rolls of 30 children in the morning and 30 in the afternoon) had not changed their operation. Teachers in the kindergartens with larger group sizes thought the group size policy had had a clear impact on the children, programmes, teachers and families.

The larger groups meant that teachers had less time to work with individual children and small groups. Young children found larger groups to be overwhelming and teachers were constrained in the kinds of activities they could offer. For example, activities that required supervision, such as cooking, were more restricted. Noise levels made some activities difficult and there was conflict amongst children over equipment and resources. Teachers found themselves forced more towards a supervisory rather than an educational role.

The increase in roll numbers also had an impact. Ninety families (in 45/45 kindergartens) were too many for teachers to get to know and work with effectively. Some children were being admitted at a younger age, putting extra demands on teachers.

Other changes - senior teacher positions, fee-charging, employment contracts

Other changes occurred in kindergartens after bulk funding. Some kindergarten associations disbanded their senior teacher positions (Mitchell, 1995). Senior teachers were the professional leaders of kindergarten associations, but increasingly became involved in management following bulk funding (Wilson and Houghton, 1995). Scrivens (1999, p.4) described the kindergarten service as 'the guinea pig for the government's implementation of managerialism in education'. Her qualitative study of six senior teachers showed tensions between supportive participatory leadership, and the compliance and accountability which had become a focus since bulk funding.

The squeeze on funding that started to happen soon after bulk funding was introduced led to some closures of kindergartens in low-income areas (Mitchell, 1995) and to some kindergarten associations revising their fee-charging policy. In 2001, kindergartens in the Napier and Central North Island Kindergarten Associations charge fees. Some associations have deleted the word 'free' from their name in their constitution. Victoria Carter, vice president of the Auckland Kindergarten Association in 1996, claimed that the organisation faced a crossroads. She wrote:

> Should it close because of lack of government support, or should it completely alter its aim of providing free early childhood education? The same issues are being faced by all public kindergarten associations. (Carter, 1996, p.13)

Carter noted that the Auckland Kindergarten Association could not afford to build the 50-odd new premises needed to cater for all children over age three in Auckland, and was deferring maintenance of many kindergarten buildings.

Salaries bulk funding and insufficient funding also had an effect on teachers' collective employment contract negotiations. Teachers had no pay increase from 1990 to 1994, and their conditions of service were reduced in 1992. A 2 percent salary increase for all teachers and an extra $300 for head teachers was negotiated in 1994 by NZEI Te Riu Roa with the State Services Commission. However, it was not compensated for with additional funding. Instead, kindergartens were expected to generate extra funding by extending the teaching year to 41 weeks or charging fees. Davison (1997) provides evidence of governmental pressure to charge fees, alter the basis of operation, or employ untrained staff in some teacher positions.

Further pressures on kindergartens to 'make more money' by extending their teaching services (rather than through government funding increases) occurred during the next employment contract negotiations in 1995/1996. The May 1995 budget provided kindergartens with a 0.87% increase in funding. This compared with a 6.3% increase in inflation from March 1992 to March 1995.

The kindergarten teachers' union, NZEI Te Riu Roa, campaigned for increased funding. A special hearing on the funding of kindergartens was held by the Education and Science select committee in November 1995. The hearing was a response to over 16,000 signatures on 263 petitions, organized by NZEI Te Riu Roa, calling for an increase in kindergarten funding. The Associate Minister of Education, Hon. John Luxton, told the committee that kindergartens were privileged and that there were advantages in their having lesser funding, charging fees and attracting a childcare subsidy.

However, additional kindergarten funding was secured on 7 October 1996, after a long campaign by teachers, and this was passed on to teachers in increased pay. (NZEI Te Riu Roa, 1996).

On 29 April 1997, the government used urgency to remove kindergarten teachers from the State Sector Act. In doing so, it distanced itself from responsibility for funding teachers' salaries. The key argument for removal was articulated by the then Minister of State Services, Hon. Jenny Shipley:

> In the past, because of the State Services Commission involvement, the negotiations have been used by the New Zealand Educational Institute to secure additional funding for kindergarten associations over and above that allocated to the early childhood sector through the budget process. This is an avenue to secure extra funding for kindergartens that is not available to other education providers. The government is not prepared to allow this inequity to continue in the forthcoming contract negotiation. (Hansard, 29 April 1997)

Kindergarten associations then faced the costly and complex business of negotiating employment contracts with teachers. By 2000 there were 18 contracts in the kindergarten sector, with variable rates of pay and conditions. The national teaching service became fragmented. A change of government in 1999 prevented further variability in employment conditions. Kindergarten teachers and associations were returned to the state sector through the Employment Relations Act (2000), and a single collective agreement was negotiated by NZEI Te Riu Roa with the Ministry of Education in 2000. In 2000, there was a 46.3% gap in earnings between kindergarten teachers at the top of their pay scale and primary and secondary teachers at the top of their scale (Beresford, 2000).

The Impact of Bulk Funding on Childcare Centres

It is difficult to tease out the impact of bulk funding on early childhood services generally, because its introduction in 1990 was accompanied by a large increase in funding levels for all services except kindergartens. Some services received a funding increase of as much as 104 percent. Clearly, this meant that they were able to achieve more than previously.

However, there is some evidence of how childcare centres fared under the bulk funding regime during the 1990s. Initially, childcare centres were able to make substantial improvements in relation to staffing and cost to families. Mitchell and Noonan (1994) wrote:

> In 1989 the future for childcare looked rosy... The newly announced funding increases meant that workers received substantial pay increases (although their wages were still low), ratios of staff to children were improved, opportunities for staff to further their training were made available, fees were lowered for parents, and more centres were established. (p.140)

However, certain features of the funding system enabled these gains to be easily eroded. These features were the fact that it was based on student numbers rather than costs of service provision; the rules on eligibility, which allowed for-profit centres to attract government funding; and the rules on accountability for spending, which allowed centre managers to determine spending priorities. Since the funding was not tied to any item of expenditure or external cost indicator, there was no imperative on the government to sustain funding rates at the levels at which they were initially set, or to raise levels as costs increased. The absence of requirements to have anything but minimum staffing levels and the operation of a free market model allowed decisions about staffing and fees to be made largely by management.

In contrast, had the government funded childcare centres through direct salary funding (i.e. paying staff salaries directly, as it does in the schools sector), combined with an operations grant, it would have needed to determine or negotiate the salary rates. Bulk funding needs, therefore, to be considered in the context of other legislation related to the operation of centres, such as staffing requirements, whether and to what level fees are payable by parents, and industrial legislation related to how pay and conditions are negotiated.

On 19 May 1991, the Employment Contracts Act became law. It did not require employers to bargain in good faith. At that time the New Zealand National Childcare Award was a blanket coverage award providing minimum rates of pay for childcare workers. The award expired on 30 May 1991. This award was reduced from coverage of 1500 childcare workers and 350 employers to 50 workers and 8 employers, when most of these employers used the Employment Contracts Act to justify their refusal to enter into negotiations. Mitchell (1994) reported anecdotal evidence that after the loss of the national award, a significant number of young childcare workers were paid below the minimum adult wage.

Bulk funding rates were set in the implementation of *Before Five* at $2.25 per hour for children aged over two (for up to 30 hours per week), and $7.25 per hour for children under two. The *Before Five* funding package promised a five year staged plan to increase hourly funding rates for children over two years. This staged increase did not happen. Instead, in the 30 July 1991 Budget, the government announced a reduction in funding for under twos to $4.50 per hour from 1 February 1992. Other budget decisions were made to reduce the staff:child ratios required in chartered centres, and the ratios required for licensing in mixed-age centres. Training requirements for staff were also lessened.

The Combined Early Childhood Union of Aotearoa (1991, 1993) carried out two surveys—one in November 1991, the other in November 1992—to monitor the impact of funding and regulatory change. These surveys found evidence of changes in staffing as well as other aspects of centre operation. The results of the 1993 survey showed:

- Changes to working conditions (4.5 percent had cutbacks to annual leave and 5.1 percent had cutbacks to sick leave)
- A trend towards larger groups of children and lower staff:child ratios (16.8 percent reported larger groups and 6.2 percent smaller groups; 17.8 percent reported lower staff:child ratios and 11 percent higher ratios)
- An increase in fees for 40.6 percent, with some reporting that 'they lost children under two because their parents could not afford childcare'
- Staff redundancies for 12 percent
- Increased hours for 4.4 percent
- Less in-service training for 15.8 percent
- Heavier workload for 29.8 percent
- Inability to replace or buy equipment and/or properly maintain building and grounds for 30.5 percent.

While all centre types made changes, for-profit private centres tended to make changes to staffing numbers and conditions, while community-based centres tended to increase fees or not replace or buy equipment.

Arguably, when funding is not apportioned to particular spending purposes and responsibility for determining spending priorities rests with centre managers, it is easier for the government to reduce funding because it does not have to face the immediate consequences itself. However, without the tagged funding the government's own goals of enhancing quality and improving access become harder to reach. The study by Wylie, Smith and Vize (1988) of the effects of funding policy on the quality of childcare centres in the 1980s lends support for tagged funding. Their interviews of supervisors, operators, administrators and parents from 11 centres, showed trained staff grants (which had to be spent on trained staff) to be the most popular form of funding. Positive effects noted were a greater orientation towards education and emphasis on planning and accountability.

One impact of the 'free market' approach within early childhood education was the growth of profit-making childcare centres from 300 in 1989 to 716 in 1998 (Ministry of Education, 1999). These centres now make up more than half the total of 1376 childcare centres. The profit-making opportunities offered by childcare provision are illustrated in an advertisement in the 'Business Opportunities' column of an Auckland newspaper in December 1998 (NZEI Te Riu Roa, 1998). It read, 'Childcare. An industry which will return you 20% plus on your investment. From $300,000 to $1.4 million.' The capacity of business owners to spend government funding on purchasing property and private assets has been an ongoing issue and was raised in a number of forums during the early years of bulk funding.

In 1990, the Audit Office submission on the Education Act argued that there was insufficient accountability for spending early childhood education funding. In September 1990, the Education Review Office carried out a special review of the use of funding by early childhood centres. It expressed concerns about the use of funds: 'There was evidence that in some centres bulk funding was being directed to aspects of administration and the upgrading

of existing assets to the prime benefits of the proprietors now and in the future' (Education Review Office, 1990, p.7). A national special review in January 1991 confirmed the findings of the first review:

> There continues to be concern, as expressed in the pilot review, of the use of increased income to purchase additional property or to make substantial improvements to existing property, which creates the clear potential for capital gain if the business is sold. (Education Review Office, 1991, p.3)

The first formal hearing by the Parent Advocacy Council concerned the use of funding in childcare centres. Following a complaint from a child's parents in 1990 that funding increases were not being passed on to their child's childcare centre in reduced fees or improved quality, the Parent Advocacy Council considered the accountability of for-profit childcare centres for spending government funding:

> The committee reached the view that privately owned early childhood institutions should be fully accountable to their parent communities and to the government for the way they spend the bulk grant provided by the government and the current system for that accountability was inadequate. (Parent Advocacy Council, 1991, p.83)

Conditions for receipt of the bulk grant were set by the Ministry of Education in November 1990. These stated some expectations for spending funding on improving staff: child ratios, staff development and training. However, these conditions were short-lived - they were removed in December 1991. The current system involves only financial auditing (Early Childhood Education Project, 1996).

Further funding abuses have since come to light. For example, Wallace House childcare centre was bankrupted in January 1994. It had paid $18,000 of government funding to the Bread of Life Bakery and donated a further $20,000 to church groups, while its workers went unpaid (NZEI Te Riu Roa, 1994).

Contrary to the aims of *Before Five* and the expectations it had of bulk funding, some pre-school children continue to lack access to any form of early childhood education, with disparities in access associated with family income and ethnicity. The most comprehensive national survey of who uses early childhood education services was undertaken in 1998 (Department of Labour and National Advisory Council on the Employment of Women, 1999). It showed that use of early childhood education services varied according to demographic factors. The proportion of children with early childhood education arrangements was greater for children from higher income families (74 percent) than for children from middle income families (61 percent) or lower income families (52 percent). The average rate of attendance for all preschool children was 60 percent, while for children with a parent or parent receiving the Unemployment Benefit, it was 39 percent. Use also varied with ethnicity, with children from European families having higher rates of use than children from Maori and Pacific families, and other ethnic groups.

Sector wide discontent with early childhood policies, including the funding regime, was evident in 1995. In April that year a group of representatives of the largest organisations for each service type was brought together in a project initiated by NZEI Te Riu Roa and chaired by Dr Geraldine McDonald. The project team consulted widely to identify the issues facing early childhood education and the structures and funding required to deliver high quality education.

> The key issues that emerged were the difficulty services were having in:
>
> - managing the funding and administration of the services
> - meeting the costs of high quality provision on the present level of funding
> - providing access to all families
> - relationships with government agencies. (Early Childhood Education Project, 1996, p.23).

The problems that the bulk funding system was intended to address in 1989, as outlined in the Meade report, were still evident in 1996. The report of the Early Childhood Education Project (1996) gave evidence of variable and low rates of pay throughout the sector, and problems in recruiting and retaining qualified staff. Group sizes were often undesirably large and ratios were poor, as has been evidenced in relation to the kindergarten sector. Low income, rural, Pacific Islands and Maori families all experienced barriers to accessing appropriate services. There was inadequate planning of new services and for-profit centres could open and target the same population base as existing services, with wasteful duplication. Fees were high in some services and volunteers were stretched to the limit. The report advocated a system of universal funding, similar to the schools sector, with funding compensating for costs of staff, operations and support for the training of volunteers. It also advocated equity funding related to particular costs of immersion programmes, and centres serving low-income families, families in remote areas and children with special educational needs.

Discussion

In the research evidence on the impact of bulk funding on kindergartens, there is no support for the policy objectives that bulk funding would enhance quality and improve participation. Evidence indicates a reverse trend. Main effects appear to have been negative with the exception that kindergarten associations reported greater management autonomy, improved banking systems and flexibility to target expenditure to areas of need. However there is no evidence that management autonomy improved educational quality or participation.

Bulk funding has led to kindergarten associations adjusting their operation to make available as much funding as possible within the rules. Rather than producing diverse responses to cater for needs of different communities, bulk funding appears to have led to a rather standardised set of responses. Most kindergartens are operating with the highest possible roll numbers, and with group sizes of 30 or 45. Extensions to operating hours have been made in order to alleviate financial pressures rather than to respond to families' needs.

This has eroded teachers' preparation, curriculum planning and liaison time. Teachers' pay rates are low and there are wide gaps between the pay of primary and secondary teachers and the pay of kindergarten teachers. Some senior teacher positions have been disbanded and their role as educational leaders and advisors has become more focused on compliance and accountability. The principle of free kindergarten education has been lost in two kindergarten associations where fees are being charged. Some kindergarten closures have occurred in low income areas.

The onset of bulk funding was accompanied by large increases in funding for all services except kindergartens. This enabled many childcare centres to improve staffing levels, staff wages and training opportunities and lower parent fees. New centres were able to be established. However, cutbacks in funding levels in 1991 led to some erosion of the staffing improvements. Like the kindergarten sector, larger group sizes and lower ratios were features of the changes. Many reported increasing parent fees and property maintenance standards declined. Purchase and replacement of equipment was another area that suffered.

Childcare centres are different from other early childhood services in that over half have for-profit owners who operate the centre as a business. Their capacity to determine spending purposes has led to instances where government funding has been used to improve or purchase property and make capital gains.

In general, inequities that existed in 1989 continue in 2001. Disparities in access to early childhood education, associated with family income and ethnicity, continue.

There is apparent tension between the government's aims of high quality education and the incentive provided by the bulk-funding system to "make money" by operating with minimum staffing and large groups. In situations where funding is insufficient, the pressure to make negative changes to staffing becomes strong. Research evidence, reviewed by Smith, Grima, Gaffney and Powell (2000), is clear that staff-child ratios, staff training and group size are associated with high quality education and positive outcomes for children. Wylie, Thompson and Kerslake Hendricks (1996) show this relationship in a New Zealand setting. The quality of early childhood settings in their Competent Children study was found to be related to:

- whether the staff held an early childhood qualification
- the highest staff salary paid
- the children to staff ratio
- group size
- the early childhood service type (Wylie, Thompson and Kerslake Hendricks, 1996, p.xii).

Staff pay and conditions are emerging as the highest predictors of quality in early childhood settings (e.g. Smith, 1996, Jacobson, 2001) and are associated with staff stability.

It is not possible to extract evidence of the impact of methods of funding delivery separately from levels of funding. In addition, funding is part of a web of interrelated policies, that interact with each other. However, the empirical evidence indicates that the

current funding policy has not worked well to promote access to high quality early childhood education for all preschool children.

It suggests that measures are needed to address resourcing inequalities between different types of community and to cater for the additional costs of some educational programmes. The government's 24 May 2001 budget announcement of equity funding for centres serving children from low-income families and from rural and isolated communities, for centres offering immersion education and for centres with children with special educational needs or from non-English speaking backgrounds should help counteract some inequalities.

However, funding in itself does not ensure that services are established where they are needed or that quality of education is high. These require an infrastructure of support, including specific measures aimed at planning provision and requiring and supporting "quality indicators" of staff training, appropriate staff pay and conditions, small group sizes and good staff:child ratios. The market approach will not achieve this.

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